

# **FONTANA UNIFIED SCHOOL DISTRICT**

Revised Audit Report

## **SCHOOL ACCOUNTABILITY REPORT CARDS PROGRAM**

Chapters 918 and 912, Statutes of 1997; Chapter 824,  
Statutes of 1994; Chapter 1031, Statutes of 1993; Chapter 759,  
Statutes of 1992; and Chapter 1463, Statutes of 1989

*July 1, 2001, through June 30, 2002*



**STEVE WESTLY**  
California State Controller

July 2005



**STEVE WESTLY**  
**California State Controller**

July 29, 2005

Debra A. Bradley, Ed.D., Superintendent  
Fontana Unified School District  
9680 Citrus Avenue  
Fontana, CA 92335

Dear Dr. Bradley:

The State Controller's Office (SCO) audited the claim filed by the Fontana Unified School District for costs of the legislatively mandated School Accountability Report Cards Program (Chapters 918 and 912, Statutes of 1997; Chapter 824, Statutes of 1994; Chapter 1031, Statutes of 1993; Chapter 759, Statutes of 1992; and Chapter 1463, Statutes of 1989) for the period of July 1, 2001, through June 30, 2002.

This revised final report supersedes our previous final report, issued on June 25, 2004. We revised Finding 1 to state that the district did not report \$8,558, rather than \$36,749, in offsetting reimbursements applicable to the program.

The district claimed \$51,909 for the mandated program. Our audit disclosed that \$41,550 is allowable and \$10,359 is unallowable. The unallowable costs occurred because the district understated offsetting revenues and overstated indirect costs. The district was paid \$13,415. The State will pay allowable costs claimed that exceed the amount paid, totaling \$28,135, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at COSM's Web site at [www.csm.ca.gov](http://www.csm.ca.gov) (Guidebook link), and obtain IRC forms by telephone at (916) 323-3562 or by e-mail at [csminfo@csm.ca.gov](mailto:csminfo@csm.ca.gov).

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

VINCENT P. BROWN  
Chief Operating Officer

VPB:JVB/ams

cc: Melissa L. Anderson

Director of Fiscal Services  
Fontana Unified School District

Herbert R. Fischer, Ph.D.

County Superintendent of Schools  
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## **Revised Audit Report**

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# Revised Audit Report

## Summary

The State Controller's Office (SCO) has completed an audit of the claim filed by the Fontana Unified School District for costs of the legislatively mandated School Accountability Report Cards Program (Chapters 918 and 912, Statutes of 1997; Chapter 824, Statutes of 1994; Chapter 1031, Statutes of 1993; Chapter 759, Statutes of 1992; and Chapter 1463, Statutes of 1989) for the period of July 1, 2001, through June 30, 2002. The last day of fieldwork was December 19, 2003.

The district claimed \$51,909 for the mandated program. The audit disclosed that \$41,550 is allowable and \$10,359 is unallowable. The unallowable costs occurred because the district understated offsetting revenues and overstated indirect costs. The district was paid \$13,415. The State will pay allowable costs claimed that exceed the amount paid, totaling \$28,135, contingent upon available appropriations.

## Background

Proposition 98, an initiative approved by California voters, requires schools in each school district to develop and issue school accountability report cards. The proposition also sets forth 13 items to be included in the report cards. Statutes adopted after the approval of Proposition 98 added new subjects to be included in the school accountability report cards.

On April 23, 1998, the Commission on State Mandates ruled the above legislation imposed a state mandate upon school districts and county offices of education reimbursable under *Government Code* Section 17514.

*Parameters and Guidelines*, adopted by the Commission on State Mandates on August 20, 1998, establishes the state mandate and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement in assisting local agencies and school districts in claiming reimbursable costs.

## Objective, Scope, and Methodology

The audit objective was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated School Accountability Report Cards (SARC) Program (Chapters 918 and 912, Statutes of 1997; Chapter 824, Statutes of 1994; Chapter 1031, Statutes of 1993; Chapter 759, Statutes of 1992; and Chapter 1463, Statutes of 1989) for the period of July 1, 2001, through June 30, 2002.

We performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

We conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority provided by *Government Code* Section 17558.5. We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Our review of the district's internal controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## Conclusion

Our audit disclosed an instance of noncompliance with the requirements outlined above. This instance is described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the Fontana Unified School District claimed \$51,909 for costs of the legislatively mandated School Accountability Report Cards Program. The audit disclosed that \$41,550 is allowable and \$10,359 is unallowable. The district was paid \$13,415 by the State. The State will pay allowable costs claimed that exceed the amount paid, totaling \$28,135, contingent upon available appropriations.

## Views of Responsible Official

We issued a draft audit report on April 14, 2004. Melissa Anderson, Director of Fiscal Services, responded by the attached letter dated May 20, 2004, disagreeing with Finding 1 and agreeing with Finding 2. We issued the final report, which included the district's response, on June 25, 2004. In response to additional information provided by the district after the final report was issued, we revised Finding 1 to state that the district did not report \$8,558, rather than \$36,749, in offsetting reimbursements for the program.

**Restricted Use**

This report is solely for the information and use of the Fontana Unified School District, the San Bernardino County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

**Revised Schedule 1—  
Summary of Program Costs  
July 1, 2001, through June 30, 2002**

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference</u> <sup>1</sup>
<u>July 1, 2001, through June 30, 2002</u>				
Salaries and benefits	\$ 12,735	\$ 12,735	\$ —	
Contract services	<u>36,749</u>	<u>36,749</u>	<u>—</u>	
Subtotals	49,484	49,484	—	
Indirect costs	<u>2,425</u>	<u>624</u>	<u>(1,801)</u>	Finding 2
Subtotals	51,909	50,108	(1,801)	
Less offsetting savings/reimbursements	<u>—</u>	<u>(8,558)</u>	<u>(8,558)</u>	Finding 1
Total costs	<u>\$ 51,909</u>	41,550	<u>\$ (10,359)</u>	
Less amount paid by the State		<u>(13,415)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (28,135)</u>		

<sup>1</sup> See the Findings and Recommendations section.

# Revised Findings and Recommendations

## **FINDING 1— Understated offsetting revenues**

The district understated offsetting revenues by \$8,558 for FY 2001-02. The district claimed \$36,749 in contract services for the mandate as direct costs, yet classified the same costs as indirect costs on its accounting system (which are allocated based on its accounting system's direct costs). Consequently, \$8,558 of costs claimed as a mandate were also allocated on the district's accounting system through its indirect cost rate plan to other programs, which includes those funded by restricted state and federal sources.

The district's FY 2001-02 indirect cost rate was approved by the California Department of Education to be used for FY 2003-04 under the delegated authority by the United States Department of Education. Estimated indirect costs are calculated by multiplying the indirect cost rate approved for the fiscal year times the actual base costs of that period. The estimated indirect costs are compared with the actual indirect costs for the period. The difference between the two costs is the adjustment that is carried forward to affect the rate to be used in the second succeeding fiscal year.

*Parameters and Guidelines* states that only increased costs as a result of this mandate are allowable and reimbursement received from any sources, including service fees collected, federal funds, and other state funds, is to be identified and deducted from this claim.

### Recommendation

The district should establish procedures to ensure that claimed costs are net of offsetting revenues.

### District's Response

We do not agree with your finding #1, however. We did correctly allocate the contracted services portion of our SARC [School Accountability Report Cards] costs to function 7200, object 5800 within the State Account Code Structure (SACS) software. The expenses in this function and object do become a part of the numerator in the indirect cost rate calculation; however, if we were to allocate those costs elsewhere, it would have become a part of the denominator of the equation. Thus, the District does not agree with finding #1, that offsetting revenues should have been stated on the claim.

### SCO's Comment

Subsequent to the issuance of the final report, the district provided additional information to support \$8,558, rather than \$36,749, in offsetting reimbursements for the program. The finding has been updated for this change.

**FINDING 2—  
Overstated indirect  
costs**

The district calculated indirect costs on contract services, overstating indirect costs by \$1,801 for FY 2001-02. The district identified contract services as indirect costs rather than direct costs on its accounting system when developing the 4.9% indirect cost rate for use in FY 2001-02. Consequently, indirect costs should not have been applied to contract services.

*Parameters and Guidelines* states that only costs increased as a result of this mandate are reimbursable.

**Recommendation**

The district should review all filed claims to ensure that indirect costs are properly computed.

**District's Response**

We do agree with your finding #2, relative to the application of the indirect cost rate to the contracted services performed by our SARC preparation consultant. Since we were claiming the contracted services as reimbursable mandated costs, we should not have applied the indirect cost rate to those services.

**SCO's Comment**

The finding and recommendation are unchanged. The district agrees with the finding.

**Attachment—  
District's Response to  
Draft Audit Report**

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# Fontana Unified School District

9680 Citrus Avenue · P.O. Box 5090 · Fontana · CA 92334-5090 (909) 357-5000

May 20, 2004

Jim L. Spano, Chief, Compliance Audits Bureau  
State Controller's Office, Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874

Dear Mr. Spano,

Thank you for the opportunity to respond to the draft audit report on Fontana Unified School District's School Accountability Report Cards (SARC) mandated costs claim. I sincerely appreciate the deadline extension you granted, allowing the District to respond to your report.

We do agree with your finding #2, relative to the application of the indirect cost rate to the contracted services performed by our SARC preparation consultant. Since we were claiming the contracted services as reimbursable mandated costs, we should not have applied the indirect cost rate to those services.

We do not agree with your finding #1, however. We did correctly allocate the contracted services portion of our SARC costs to function 7200, object 5800 within the State Account Code Structure (SACS) software. The expenses in this function and object do become a part of the numerator in the indirect cost rate calculation; however, if we were to allocate those costs elsewhere, it would have become a part of the denominator of the equation. Thus, the District does not agree with finding #1, that offsetting revenues should have been stated on the claim.

Again, thank you for the opportunity to respond to the audit. It has been a pleasure working with you and your staff, and we look forward to receiving the final report.

Sincerely,

Melissa L. Anderson, Director  
Fiscal Services

MLA:cb

cc: Dr. Debra Bradley, Superintendent  
Mr. Jerry Kurr, Interim Associate Superintendent, Business Services

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